



Austin's Economic Future
*The Mayor's Task Force on the Economy -
Subcommittee Findings*

City of Austin

April 9, 2003

prepared by



Spring 2015



Specific Charge for Traditional Industries Recruitment and Retention Subcommittee

- **Overarching policies for the use of incentives for recruiting and retaining major employers providing new jobs in the community.**
- **The nature of incentives for the City to provide for new and existing businesses.**
- **A matrix to be used to determine the appropriate incentives including types of businesses, number of jobs created, benefits to the community, impact on individuals who have barriers to employment.**
- **Formula for analysis of the cost-benefits to determine net benefits to the City and community.**



Shared Investments: Background

- Incentives have been part of economic development since at least 1791, when New Jersey offered Alexander Hamilton a tax abatement to locate his manufacturing facility in that state.
- Estimated that “\$20-\$30 billion” in state and local incentives currently are offered in the U.S., with the federal government investing an additional \$6 billion.
- “Increasing local jobs” and “improving the city’s tax base” are the two most cited goals of local economic development programs, according to a 1987 National League of Cities survey of 326 mayors.



The City of Austin Should be Willing to Create a Shared Investment with Firms That Are Either Relocating or Expanding Using the Following Criteria

- **Economic and Fiscal Impact**
 - Overall economic impact
 - Job creation
 - Infrastructure demands
- **Local linkages to the Austin Economy**
- **Cultural/Quality of Life Considerations**
- **Additional Environmental Considerations**



Process for Determining Level of Investment

- **Cost-benefit analysis is proper approach.**
- **Benefits should be measured by present value of direct tax revenues attributable to firm/project.**
- **Costs have two components**
 - **Direct costs – expenses incurred by City of Austin for the firm/project primary benefit – new infrastructure, etc.**
 - **Indirect costs – ongoing City expenses associated with overall growth of the community – police, parks, etc.**
- **Package could include some percentage of *net* gain to City – direct benefits minus direct and indirect costs**



Shared Investment Policy

- **City is not in a position to “front-load;” all packages should be based on shared investment being returned for meeting specific agreed-to performance measures.**
- **The guidelines delineated earlier should be used to determine the level of net gain the City is willing to return.**
- **All applicable City revenue sources could potentially be considered in measuring the benefits.**
- **Local Government Code Chapter 380 is likely to be the preferred vehicle, due to its simplicity and flexibility.**
- **Local hires reduce the level of new indirect costs, and should be factored into the equation, along with other actions taken by the firm to the public benefit.**



City Incentives Today

- **City goes through fairly detailed benefit-cost analysis process using WebLOCI model.**
- **Economic effects, i.e., the ripple effects are considered (job creation, economic activity, etc.) but are not part of the calculations per se.**
- **All projects evaluated over a 10-year period; benefits and costs expressed purely in City of Austin terms:**
 - **Benefits: City tax revenue, fees, fines, and utility-related revenue**
 - **Costs: specific infrastructure, allocated departmental operations, utility-related, and any incentive**



Additional Thoughts on Incentives

- **Current structure safeguards against a bad deal, especially if there is credible competition.**
- **While Austin is performing at a high level, lack of such a policy clearly would undermine our competitive position.**
- **Local economic development agreements are often required as part of receiving incentives from the State of Texas, removing significant leverage for certain deals if eliminated.**
- **Economic development agreements can be a tool in addressing the challenges of hard-to-employ populations (such as former offenders or those with special needs), or in promoting a nascent desirable industry (such as manufacturing using recycled materials).**
- **Lack of a mechanism for creating these contracts sends a pretty clear message that Austin is not focused on economic development, which could in turn influence perception of our overall desirability as a place to work and do business. That may make little difference in the short run, but local history teaches us that the situation can change rapidly.**



Conclusions

- **Process appears to be working as envisioned.**
- **Detailed evaluation criteria and scoring system were never meant to be static;**
 - **Structure should basically remain in place, but some adjustments can occur to reflect overall economic environment and evolving community priorities.**
- **Incentives are just one piece of overall economic development effort.**
- **Easy to lose sight of tremendous success in recent years; at this point, Austin is arguably the economic development leader in the nation.**